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C O N F I D E N T I A L SECTION 01 OF 02 BRASILIA 001622

SIPDIS

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TAGS: [PGOV](#) [KCRM](#) [SOCI](#) [PREL](#) [BR](#)

SUBJECT: BRAZIL SCANDAL LIKELY TO GET WORSE BEFORE IT GETS BETTER

REF: A. BRASILIA 1494

[1](#)B. BRASILIA 1544

[1](#)C. BRASILIA 1602

Classified By: POLOFF RICHARD REITER FOR REASONS 1.4B AND D.

[1](#)1. (C) SUMMARY. While Brazilian Congressman Roberto Jefferson, in his testimony before the Congressional Ethics Committee this week, did not provide proof to support his charges that senior officials of President Lula's Workers' Party (PT) were involved in a scheme to buy votes in Congress from 2003 to 2005, his testimony was seen as credible and dramatic. If the Lula administration breathed a sigh of relief on seeing that Jefferson had no hard evidence, it could be short-lived, as further revelations may follow next week. Lula is reportedly planning to shuffle his cabinet in the coming days, with the resignation of powerful Chief of Staff Jose Dirceu seen as increasingly likely. Congress has set up a formal investigative committee (CPI) to look into the related Postal Service scandal and may set up another CPI for the vote-buying scheme. END SUMMARY.

JEFFERSON'S TESTIMONY: THE DAY AFTER

[1](#)2. (C) On June 14, Brazilian congressman and president of the PTB party Roberto Jefferson testified to the Chamber of Deputies' Ethics Committee about a scheme in which senior officials of Lula's Worker's Party (PT) allegedly paid thousands of dollars per month to secure the congressional votes of the allied PL and PP parties. While he did not offer a smoking gun, Jefferson (an experienced trial lawyer by background) was seen as dramatic and credible in his televised testimony. He noted that President Lula himself was not involved in the scheme, but that Lula's Chief of Staff, Jose Dirceu, was one of the PT members involved. He also named names of Deputies from the allied PL and PP parties. Citing exhaustion, Jefferson did not appear for his second day of testimony on June 15, scheduled to be a closed-door session. In surprise moves, leaders of Jefferson's PTB party decided to retain him as party president and also to maintain the party in the governing coalition. According to PTB leaders, their initial impulse to expel Jefferson weakened when polls revealed a positive reaction to his "convincing" June 14 testimony.

THE WORST MAY BE YET TO COME

[1](#)3. (C) But the Lula administration is not out of the woods. We have heard from high-level sources that in the coming days, several members of Congress named by Jefferson as having received payoffs will publicly admit their role in the scheme and point fingers at PT officials, including Jose Dirceu. In addition, the payoffs may not have been limited to the PP and PL parties, but may have gone to major media outlets as well. If true, these revelations could be explosive.

CLEANING HOUSE IN THE CABINET

[1](#)4. (C) President Lula is reportedly planning to shuffle his cabinet and reorganize the fractious coalition. If he resigns from the cabinet, Dirceu would take up the Congressional seat he won in the 2002 elections. Others cited as possibles to resign are Central Bank President Mereilles and Social Security Minister Juca (both of whom have separate legal troubles), and possibly Lula's Political Coordinator Aldo Rebelo (who is not tarred by the scandal but who has signally failed to coordinate the coalition in Congress). Parallel to the cabinet shakeup would be a reorganization of the coalition. Jefferson's PTB, as well as the PP and PL that he charges with taking bribes, are all considered "parties for rent", without core beliefs or discipline. As they have evolved from unreliable allies into downright liabilities, Lula may choose to push them to arm's length. If so, he might look to replace their cabinet representatives (Tourism Minister Walfrido Mares Guia of the PTB and Transportation Minister Alfredo Nascimento of the PL), who themselves are performing creditably.

GOVERNMENT IN CONTROL OF POSTAL SERVICE INVESTIGATIONS

[1](#)5. (C) In a move urged personally by Lula, the governing coalition secured control of the key seats in the joint congressional inquiry committee (CPI) that will look into corruption in the Brazilian Postal Service and the Brazilian Reinsurance Institute. It is alleged that officials at these

agencies who had patronage jobs courtesy of Roberto Jefferson were involved in skimming funds and taking bribes. In a tight vote, PT Senator Delcidio Amaral was elected to chair the CPI. He quickly selected as rapporteur Deputy Osmar Serraglio (PMDB), an experienced attorney who is close to Jose Dirceu. The CPI, which has subpoena powers, will begin work next week and has six months to present its final report. Separately, Congress may set up another CPI to look into the vote-buying scheme being revealed by Roberto Jefferson.

COMMENT

16. (SBU) While most Brazilian scandals tend to "end in pizza", i.e., nobody is punished beyond a few days of negative press, this one feels different. If it is true that evidence supporting Jefferson's charges will be revealed in the coming days, then a cabinet shuffle --with Dirceu among the first to go-- seems nearly inevitable. It is far too early to gauge the long-term impact on Lula, his agenda, and his reelection chances, but even without the opposition stepping in to fan the flames, this crisis could get worse before it gets any better.
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